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ATTN:
THRU:

29 January 1959



Comments on Draft of Project 14.1542, Defense Expenditures in the Soviet Budget

1. The referenced paper is, in our opinion, a job well done and worthy of publication. We think it denotes a definite step forward.
2. We believe, however, that several changes are in order. For example: the paper should be oriented positively -- i.e., that the results reflect the consistency of the budgetary and pricing approaches to the problem of Soviet military expenditures for the recent period and not inconclusiveness; more current estimates should be employed where they are available; certain disagreements with other estimates, as reflected in text and tables, should be eliminated; and there are diverse other points, a number of which are minor.
3. The appended attachment details our comment. Should any questions arise please feel free to contact [redacted]

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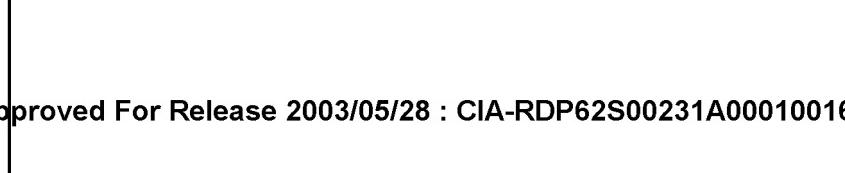
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Comments on Project 14.1542

1. We suggest what might be termed a positive, rather than a negative, approach with regard to the conclusions. (See Summary and Conclusions and Concluding Remarks.) For example, instead of emphasizing the difference in 1950 and that there is nothing conclusive since that time period, we think it would be more meaningful and more in line with the results to indicate that the efforts reflected in this paper, while not proving the validity of our estimates of military expenditures, are consistent (not "not inconsistent") with them. To this end, we also suggest incorporating 1956 and 1958 into the paper. The rather appreciable difference in the two estimates for 1950 can be used to reflect doubt on our estimate for 1950.

We suggest substituting wording of the following sort: a) in the Summary and Conclusions, beginning with "However,..." in the middle of the final paragraph --

For the more recent years (1955-58), however there are available sufficient funds to finance the program and activities as estimated directly. While there is no certainty that the available funds are so employed, budgetary data are less complete for these years, the results herein obtained are consistent with those estimates.

b) in Concluding Remarks --

Page 17, line 8, change "...not inconsistent." to consistent.

Page 1d, line 12, insert all before "...procurement...".

2. The "direct" estimate of military expenditures incorporated are not the most recent. See Table 1 for our most current estimates. We also suggest that before this paper is sent to the editors you check with us for any modifications that may have taken place.

3. It seems to us more likely probable than possible that there are funds for military construction available from sources other than the allocation Defense. For example, it seems clear that housing on military posts is financed through the defense allocation; other housing for military personnel appears to be otherwise financed. The source of such "other" funds is not known but financing the National Economy and/or the Social-Cultural allocation are likely places.

Similarly, it is possible that funds for the education of military personnel and dependents are available from the Social-Cultural allocation. We suggest, therefore, that these possibilities be at least noted -- if not specifically taken into account.

b. See Table 1 for the estimates of R & D. These estimates include "product development" which is financed from PNE and amounts to one-half the estimated total for R & D. This means that the other half must come from Social-Cultural funds, budgeted or non-budgeted. Given the relatively small amount available outside of the budget and that military R & D is likely to be rather strictly controlled from the center it would appear that the announced budgeted funds for R & D would bear the overwhelming burden of the R & D effort which is exclusive of "product development."

The upper limits of the ranges shown for Scientific Research in Table 2 are compatible with the existing estimates; the lower limits are not. The consistency of the upper limits is contingent, however, on the assumption that some funds are available from non-budgetary sources. Since there is no means of specifying the extent of these non-budgeted funds, we suggest using two-thirds of the amount announced (or estimated) -- that is, using the same proportion as exists between estimated military R & D and total R & D. Elimination of the lower limit will, of course, lessen the possible difference between the two estimates of military outlays.

The paper, in numerous places, seems to be taking issue with the existing estimates, including UN 11-6-56:

- a) Page 2, Table 1, footnote a. Subtraction of 3 million rubles appears excessive (see above).
- b) Page 7, Table 2. The minima shown opposite Scientific Research are not sufficiently large to accommodate the existing estimates of R & D (see above).
- c) Page 12, end of first paragraph under 3. The statement declaring the virtual impossibility of estimating is not correct. Suitable evaluation of any estimates, however, is another matter. In addition, with regard to the funds for R & D under PNE there should be relatively little problem in ascertaining those efforts that are specifically military from others. Funds from PNE finance "product development." Perhaps striking the last five lines of this paragraph -- beginning with "However,..." would be a satisfactory solution.
- d) Page 12, last sentence and Page 7, Table 2, item 3 under PNE. The range cannot be 0 → X as this is rejecting the existing estimate of R & D. (Also with regard to nuclear energy -- see above.)

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a) Pages 12, 13, last two sentences of Section A, G. The first of these statements impugns some existing estimates; the magnitude expressed in the second statement is not completely accurate and suggests that the magnitude was obtained by means other than those actually used.

r) Page 13, Section B, last sentence. This sentence rejects the existing estimate of two-thirds (of all R & D outlays, including all those announced).

5. Some expression of likely margins of error for the estimates of budgeted expenditures for other than military purposes seems desirable. This would permit, given our subjectively assessed errors, an area of overlap which might help in presentation -- particularly with regard to the reasonableness of the budgetary approach denying or being consistent with the other estimates of Soviet military outlays.

6. Summary and Conclusions, line 7. Instead of "weapon procurement and personnel" we suggest a broader term -- e.g., military programs and activities.

Line 7. Insert probably before "...insufficient...".

7. Introduction, page 1, last 6 lines. Although budgetary data provide little of help in ascertaining outlays for specific programs, it is possible that related information -- i.e., some of the financial reporting of specific units and article number information -- would permit, in and of itself, such estimation. Second, to preclude any ambiguity with regard to the last sentence, it should be made clearer that a method (not really an alternative) need be found for a budgetary approach. As just noted above such a possibility exists.

Line 5. Insert and associated military activities after "...personnel...", striking "...and..." before "...military...".

8. Page 2, line 4. We suggest striking the word "...known...".

Line 6. Insert other after "...all...".

Footnote to Table 1, line 3. Change "...reserve officers..." to regulars.

9. Page 4, first paragraph. We suggest reorienting this paragraph. For example:

For the purpose of this paper the Soviet budget is the only source of funds for military programs and activities that is of concern. In spite of repeated statements in Soviet financial publications that the budget is the only source

of funds for these purposes, there are some outlays of military significance known to come from other sources. These are currently estimated to be no more than 5 billion rubles at any time during the period under consideration and to be used for some defense oriented research and development and for the pay of reserve personnel when on temporary duty (e.g., summer training). Therefore, the appropriate sum has been deducted for each year from the direct estimates of Soviet outlays.

The balance of the paragraph, beginning with "It is true..." (line 10) raises the question of whether it is known that such practice is indeed the case and just what is meant by the word "finance" in line 11. The next sentence, which is the last sentence in the paragraph, should probably refer to military goods rather than "military hard goods" as it is conceivable that soft goods receive similar treatment.

Page 4, second paragraph, first sentence. There are defector reports which state that secret funds (unreported budget) exist. Hence, all available information does not support the assumption.

10. Page 5, entire paragraph. The emphasis of this paragraph seems somewhat misleading. There are considerable funds outside the allocation Defense that are used for militarily significant activities. That such categorization of accounts may not be deception according to Soviet practice is certainly a point worth making, but as done it leaves an impression almost completely counter to the results and contents of the paper. Alternative wording might be:

Lastly, it has been assumed that the published Soviet budget is a meaningful document -- that is, within the context of Soviet definition and practice there is no deliberate mislabeling and juggling of entries. This assumption does not mean that outlays for military programs and purposes are not located in entries other than that explicitly labeled Defense -- in fact, quite the contrary is the case. Part III deals more fully with this question.

11. Page 7, Table 2. The amount available from Investment and Other (items 1 and 6 under P&E) together cannot be 0. Besides R & D money, there must be funds in one or both of these categories for nuclear energy. Perhaps 0 would suffice, in conjunction with an explanatory footnote, but given the estimates that now exist for R & D and HE a floor is put on the availability of funds from those categories (in summation) thought to finance them.

12. Page 15, G. In noting the availability of funds for "defense" from those allocated to internal security forces, it would be desirable to state that these funds are for the militarized security forces.
13. Page 15, H. The possibility of funds for military purposes coming from reserve funds might be noted. One report suggests that it does occur.
14. Page 16, line 2. Not "...until..." 1950, but through 1950.
15. Page 16, last paragraph. We do not believe the problem to be as stated. The two parts of the problem as stated could well be combined into one. Further, the method we have been employing for three years goes unanswered. Hence, while the problem is admittedly difficult, next to impossible seems too strong. Finally, it is not, strictly speaking, correct to indicate that a precise estimate of costs to the Soviet government of its military programs cannot be made. The existing estimates might be excellent -- we just cannot evaluate them suitably. In place of this paragraph we propose the following:

Therefore, the problem of estimating the financial cost to the Soviet government must continue to be approached from two sides: first, direct estimation of the costs of their military programs and activities; and second, the budgetary source(s) of funds for each of these programs and activities and the amount of funds from each such budgetary source. Certainly the paucity of data makes the desired resolution of the problem difficult but in spite of the difficulties the value of these complementary approaches is apparent.

16. The word "defense" has been used rather consistently to denote Soviet programs and activities of a military nature. This usage is not consistent with that we are using. We suggest, rather than making changes wherever the word appears, that a footnote stating that the word "defense" has been used to refer to Soviet programs and activities of a military nature which are roughly comparable in scope to those for national security in the US be inserted early in the paper.

Table 1

Soviet Military Expenditures, 1950, 1952, 1955-58
(billion current rubles)

Year	Total Expenditures	R & D	Reserve Pay
1950	144	10.8	2.0
1952	153	11.3	2.1
1955	162	15.4	2.3
1956	163	18.2	2.5
1957	153	19.2	2.6
1958	158	20.2	2.9